

# **Manufacturer's Biggest Challenge? More Revenue**

The strategies to grow your manufacturing company  
and survive during a time of economic change.



**By Michael Collins**  
President, MPC Consulting

An **IndustryWeek**  
Best Practices Collection

## **Table of Contents**

- 3. Executive Summary**
- 5. Introduction:** Manufacturing's Biggest Challenge? More Revenue
- 7. Chapter One:** Do You Have a Competitive Advantage?
- 11. Chapter Two:** How to Change Your Organization
- 15. Chapter Three:** Finding New Customers and Markets
- 20. Chapter Four:** Finding New Customers and Markets Using Internal Information
- 25. Chapter Five:** Using Inquiries to Increase Sales
- 29. Chapter Six:** Developing New Products That Sell
- 33. Chapter Seven:** Developing New Sales Channels That Fit Your Customers'
- 37. Chapter Eight:** Conclusion – Can We Grow American Manufacturing?
- 42. About the Author**

## Executive Summary

American manufacturing has done pretty well in terms of cost reduction, productivity and internal efficiencies in the last 30 years. In the eighties, when the Japanese began penetrating our markets with superior quality products, American Manufacturers responded with Deming Statistics, TQM, and ISO 9000. Eventually, America was able to compete with anybody in terms of quality.

About the same time computer software evolved into MRP, MRPII, and ERP to control workflow and inventories. Then the Toyota Production System was introduced and programs like JIT, Six Sigma, and Lean Manufacturing became very popular. All of these initiatives have kept the United States in the global game of manufacturing.

In fact, American manufacturing ranked first in manufacturing value added in 2008 as most other countries showed drops in their output because of the recession. In 2011, the Department of Labor said that America and China are both close to the number one position in terms of total manufacturing value added.

The U.S. Labor Department shows that output-per-hour of American Manufacturing from 1987 to 2011 was 3.4 in 24 years. This is very high compared to most other countries except for Finland, Singapore, and Taiwan. So if these figures are all true, why is there still doom and gloom in the manufacturing sector?

The problem is that American manufacturing is not growing in terms of percentage of GDP, number of employees, number of plants, or, in many cases, sales revenue.

The chart below shows the macro economic figures from the last decade to support this claim.

	<i># Employees</i>	<i># Establishments'</i>	<i>% of GDP</i>
<i>2000</i>	16,473,994	54,498	14.2%
<i>2001</i>	15,950,424	352,619	13.1%
<i>2002</i>	14,664,850	344,341	12.7%
<i>2003</i>	13,878,170	339,083	12.3%
<i>2004</i>	13,404,202	338,080	12.5%

<i>2005</i>	13,168,822	333,460	12.4%
<i>2006</i>	12,954,696	331,355	12.3%
<i>2007</i>	13,416,569	330,350	12.1%
<i>2008</i>	12,781,169	326,216	11.4%
<i>2009</i>	10,914,035	308,934	11.0%
<i>2010</i>	10,567,355		11.7%

We have lost 5,906,639 employees, closed 45,564 factories, and manufacturing's percentage of total GDP has slipped 2 percentage points since year 2000.

A recent Deloitte consulting survey of North American CFOs found that "60% of the firms say their top company challenge is revenue growth from existing markets." I think that it is safe to say that since America has felt the pressure of globalization, American manufacturing is no longer growing especially in terms of sales.

### **What Are The Options?**

One alternative is to wait and see. We can hope the government will make progress in forcing China to stop manipulating its currency, which is undervalued by as much as 30%. This makes China very attractive for American manufacturers seeking ways to lower costs. It also makes Chinese imports superficially cheap.

Or perhaps the large multinational companies will become more patriotic and quit outsourcing jobs and production to low-wage countries. This would create an immediate demand for American manufactured products and opportunities for growth.

Or maybe the Obama administration will give in to the multinational companies and reduce their corporate tax rate by 10% or even give them a tax holiday on the \$1.4 trillion they have kept in offshore banks. The supporters of this notion say it will create jobs and spur growth.

Or perhaps the government will come up with a successful way to reduce the cost of health care or eliminate regulations. I sincerely hope that manufacturing gets a break on many of these issues, but I would like to suggest that we shouldn't depend on government to solve our manufacturing growth problem. Hope is not a plan, and waiting for outside events to change or the government to step in to help us may never happen.

This white paper makes the argument that manufacturers, instead, consider changes and strategies that are within their control; specifically, pursuing strategies to find new

customers and market opportunities. I know these strategies work because I used everyone of them during my years as a general manager of building material handling systems.

I am a realist and I know from experience that many manufacturers are simply not comfortable employing industrial marketing strategies. I also know that in the future there are going to be winners and losers. The following strategies are my suggestions on how to grow a manufacturer in today's economy.

## **Introduction:**

### **Manufacturers' Biggest Challenge? More Revenue**

As old industries dwindle, new industries emerge, and large customers evolve to adapt to globalization, your company will be part of this change. And change can be good news as many new industries, hundreds of new market niches, and thousands of new applications will emerge. (I am fond of saying there are always opportunities in chaos.)

Certainly there are going to be many industries that continue to decline and perhaps some, like circuit boards, textiles, and shipbuilding, will never come back. But there are other industries that are emerging and evolving that will provide new opportunities for manufacturers in the future.

### **Advanced Technology Industries**

As some traditional industries die, they will be replaced by new and emerging high-growth industries. Among those industries are many technology industries – manufacturing in areas like biomedical devices, nanotechnology, nano-manufacturing, informatics, biotechnology, pervasive computing, analytical instrumentation, and optic-electronics. Some of these industries can become very high-growth industries, and the technology will eventually be used by small and midsize manufacturers for new products.

### **Traditional Industries**

Many larger traditional industries like paper, food, chemicals, and oil are not going to go away. They are U.S. industries that have a long history of growth. Although growth may not be spectacular in these industries, most will continue to grow and continue to change to be more competitive.

Industries like chemicals include hundreds if not thousands of market segments and they are supplied by manufacturers of all sizes. Because of the changes going on within each of these industries and the ongoing need for improved process machinery, there will continue to be literally thousands of opportunities for new products and services, particularly in process- and production-line automation.

A good example is packaging and the packaging industry. Every time a large consumer product manufacturer changes the packaging of its products, it can cause a chain reaction of opportunities down through the OEM suppliers that supply machines for the production lines. For example, saving money by eliminating the traditional corrugated or cardboard cartons and replacing them with some kind of shrink-wrapped package or plastic bag may cause every machine in the production line to be redesigned or

changed in some way. In every major industry there are thousands of packaging changes that result in thousands of opportunities for new applications of machines and new products.

Suffice it to say that many of these market opportunities will probably be outside of the markets you now serve. To reach them may require new approaches to marketing, a different type of organization, and new sales channels.

Jeffrey Immelt, chairman of G.E. and chairman of President Obama's Jobs and Competitiveness Council said, "the panel has asked all Fortune 500 companies to double their hiring of engineers over the coming year." In another speech, he said he would like to see American manufacturers double their workforce from 10 million to 20 million people. However, Immelt also added that the U.S. must take market share to add jobs.

Although hiring manufacturing workers is a step toward growth and a positive statement by the GE chairman, manufacturers won't and can't hire workers unless there is an increase in sales. For most manufacturing companies, this will mean finding new customers, markets, or gaining market share.

### **So What Can We Do?**

Instead of waiting for things to change or waiting on the government to change policies, I would advocate that companies go on the offense, take matters into their own hands, and develop strategies that are within their control. There are seven factors that must be addressed to have a chance at growing your company.

They are as follows:

- Finding out if your products and services have a competitive advantage
- Considering a different kind of organization to allow you to prospect for new market opportunities
- Learning methods to find new customers and markets
- Developing a system to design new products that customers will buy.
- Using future technologies and other methods to modify your products or invent new products
- Analyzing the way you sell and considering different types of sales channels
- Creating an advanced training program for the people you will hire in the next decade

## Chapter One:

### Do You Have a Competitive Advantage?

The bottom line is that you will have to have some kind of competitive advantage with your products and services if you want to grow and find new customers and market opportunities.

If you have employed lean manufacturing principles to reduce waste and lower costs, have high quality products, but are still losing orders to competition – then something else might be wrong.

There are two questions to ask yourself:

**1. What are the reasons you are losing orders, and who are you losing to?**

**2. Do you have a competitive advantage; that is, are your products and services competitive with other products and services in the eyes of the customer?**

These are vitally important questions because when a customer views your product/service package as inferior to competitors or as “me too” products that are basically the same or inferior to competitor’s, you are probably going to lose the order. Regardless of the unfairness of the customer’s judgment, your products or services are not viewed as the best offering, which means you may not have a competitive advantage.

Customers have product alternatives from all over the world from which to choose. Globalization has created a continuously changing environment, where products and services that had a competitive advantage last year are not competitive this year, because of new competitors entering the market. You can push your sales people to sell as hard as they can, but in the end the customer will sit down with a bunch of competitive quotes on the table and have to choose one.

Before you go out and hire new or more sales people or invest in an expensive promotion program, do yourself a favor and find out if you have a competitive advantage with your products or services. A good place to start is to answer the question of where and why is the company losing orders?

### Lost Orders

Do you know the specific reasons you lost orders to competitors? Do you know which competitor received the order? One of the best ways to find out if you have a chance to grow sales is by understanding why customers buy or don’t buy from your company. The reasoning is simple – it is difficult to know what to do to prevent future lost orders or lost



customers if you don't know why you are losing current customers and orders. The second reason is that it is a waste to invest in the process and plant if your products/services are not competitive.

Keeping track of lost order information is critical to perpetuate long-term growth. But the reality is that surveys show that more than 75% of manufacturers do not track lost orders and 95% do not know all of the reasons customers dropped them as a supplier. The bottom line is you can't really develop a plan to increase sales growth or even survive in the new economy without knowing why you lose orders and customers.

Finding out about lost orders is not that difficult. Begin by developing a list of all the quotations you did in the last 12 months. Then mark which ones became orders and which ones were lost. Note the real important accounts – the ones you cannot afford to lose with an X. Get everyone together who was connected with the quotes and sales effort. Now review every lost order to find the best reason. If no one has been keeping records, try to review as many of the accounts as people can remember and go through the list quickly to determine the general reasons. You will probably find that many of the lost order reasons are not known. Some will be very obvious, and other reasons may be simply guesses. From experience I can tell you that for packaging machinery typical reasons are price; couldn't meet specs; lead time; weak sales rep; responded too late, superior competitor product; and unknown.

Next comes what may seem difficult, but it's critical. You or someone else at your company – such as the appropriate sales person – will have to call each of these customers and find out the real reason for their decisions. If you don't have a person or the time to get the answers, hire an outside service to get it done. In some ways, finding out about lost orders is as important as getting orders. No matter how boring, time consuming or tedious, the customer calls are where you must find out the reasons – it is vital to the long-term growth of the company.

There are 4 types of information you can gather on lost orders that will help you in making strategy decisions:

- **Customer Information** — If you can find out the real or complete reason the customer decided to buy a competitor's product, you will have an insight as to what strategy you must change in the future to get the customer back or get the next order.
- **Model Information** — Grouping lost orders by model reveals which products might not have competitive advantage and should be considered for redesign or a pruning decision.
- **Competitive Information** — It is necessary to find out exactly which competitors you are losing to. For example, I was recruited in 1998 to turn around a division that made

packaging machinery. They did not use a lost-order process, so I had to immediately try to find out why they were losing orders and market share. I quickly found out that there were 49 competitors that built similar machines. But after a year of pursuing lost orders, I found out that 90% of our lost orders were to 3 competitors. This revelation allowed me to focus our resources and strategies on competing against these 3 competitors.

## **Competitive Comparisons**

The second big question is how do your products and services match up to the other direct competitors from the customer's point-of-view, and how do your prices compare to the competitor's prices in an apples-to-apples comparison?

If you cannot answer these basic questions, then you will find out at the point of sale whether you have competitive advantage or not. It goes without saying that it is very expensive to find out you do not have a saleable product or service at the point of sale.

A good place to start, to begin finding out more about your competitors is to create a simple matrix. On the top of the page, list all of the direct competitors for a specific model. On the side of the page, list some key specifications, speeds, capacities, prices, and other factors you know are important in a customer's buying decision. Now fill in the information that's been gathered from the competitor's literature and websites into the matrix. Leave a question mark (?) where you do not know the answers and three question marks (???) if the information is vital. This exercise is a quick way to find the information gaps that are currently not known. The gaps will also help anyone who is going to help you look for the missing information. Sometimes it may be necessary to go into the field and interview customers to get the data needed to answer all of the questions and develop a good matrix.

In the mid-80s, I was given the task by a N.W. foundry of steel castings to develop a competitive matrix for bucket teeth on large machines used in rock quarries. Caterpillar dominated this market for bucket teeth and the company wanted to make a competitive product to gain market share.

I began my investigation at a quarry in North Carolina and worked my way across the South to Arizona gathering price and model information. At a dinner meeting with a dealer in Phoenix, he casually mentioned that competitors including Caterpillar were importing castings from Brazil and South Korea. After a few martinis, he showed me the landed sell prices of the imported castings. When I compared these prices with the estimated costs of my client's proposed castings, I found that the imported casting sell

prices were below our costs, and there was no way to compete by making bucket teeth in the U.S. (It was my first encounter of what would be called globalization.)

My effort to see if the new proposed casting line would have a competitive advantage had really paid off. It would have cost about \$250,000 to design and manufacturer a competitive line of products that would not sell in this market place. We dodged a bullet, and the costs of the research were miniscule compared to the planned investment,

If you know you cannot gather this information or simply do not have the time, hire a third party to go after it. They can make phone calls to all the selected competitor companies and ask for their literature, prices, and channel information. Give them the competitor matrix you constructed, with the information gaps, and ask them to go after this gap information. They can search a number of online databases, trade directories, association directories, and credit reports for information on both direct and indirect competitors. Third parties can often get competitive information that you cannot get.

**The final competitor matrix should look like the following:**

	<b>ACME Model 1800b</b>	<b>MOJAB Model 2200</b>	<b>VALMONT Model LST-6</b>	<b>MURRAY Model MGP8+E5</b>
<b>Base Price</b>	\$110,550.00	\$130,000.00	\$120,000.00	\$110,000.00
<b>Machine Specifications</b>				
<b>Speed</b>	35 CPM – 10C	40 CPM	35 CPM	40 CPM
<b>Std. Load Ht. Capacity</b>	72"	81"	72"	72"
<b>Maximum Case Size</b>	22" x 16" x 18"	24" x 24" x 25"	24" X 24" X 16"	24" X 24" X 14"
<b>Maximum Load Size</b>	50" x 52" x 72"	54" x 54" x 81"	54" X 54" X 72"	50" X 50" X 72"
<b>Infeed</b>	Shoe turn side	Rear	Side	Side
<b>Motors</b>	Demag/US Motor/ Baldor	Reliance	DEMAG	US Motor
<b>Gear boxes</b>	Cone / Electra	US motor	ELECTRA	ELECTRA
<b>Apron/ Stripper Plate</b>	Plate	Bi-parting	Bi-parting Std	Bi-parting Std
<b>Max. Load Wt.</b>	3000 lbs	3500 lbs	3800 lbs	4200 lbs
<b>Side Layer Guides – Centering</b>	\$5,000	?	4-way Centering Required	STD
<b>Front Layer Guides</b>	\$4,000	STD	STD	\$1,000
<b>Controller-AB503</b>	STD	STD	STD	STD
<b>Brake/Meter Belt</b>	\$10,000	STD	STD	STD
<b>Lift &amp; Separate Dis- penser</b>	\$5,000	Lift & Separate	STD	STD
<b>Close Center Rolls</b>	STD	STD	3 1/8" Center STD	STD
<b>Allen Bradley 550 (keypad)</b>	\$2,000	Touch screen	Touchscreen	STD
<b>Discharge Conveyor – 5'0"</b>	\$1,000	10"pow.5'grav	?	Optional – \$1,000
<b>Interface to 18" Wrapper</b>	STD	Optional	STD	Optional
<b>Elevator</b>	4 point chain	4 point chain	hyd cylinder	4 point chain
<b>Delivery</b>	150 days	120 days	\$120.00	\$90.00
<b>Sales Channel</b>	Reps	Direct	direct	Reps
<b>TOTAL</b>	<b>\$137,550</b>	<b>\$130,000</b>	<b>\$120,000</b>	<b>\$112,000</b>

This real life example shows the value of finding out “apple-to-apples” information with comparative pricing. Acme had made the classic mistake of setting a base price for a machine that looked to be \$10,000 to \$20,000 below most competitors’ base prices. But when the machine was configured with options to match the competitor machines, the total price was above all competitor prices and not competitive in the eyes of the customer. As a result of this finding, ACME had to completely redesign the Model 1800b to gain a competitive advantage.

I know what you are thinking: “Gee I never had to do this kind of information gathering before-is it really worth the effort?” If growth in sales is the primary objective, you are going to have to make a bunch of strategy decisions on current products, new products, advertising and promotion, pricing, sales channels etc. These are all money decisions. Shouldn’t you make sure you have a competitive advantage before investing? In addition if you have spent a lot of time and money on lean manufacturing, ISO 9000, and other internal efficiency programs, but are still losing orders, perhaps it is in your best interest to find out why. The bottom line is that you will have to have some kind of

competitive advantage with your products and services if you want to grow and find new customers and market opportunities.

## **Chapter Two:**

### **How to Change Your Organization**

Manufacturers are going to have to adopt a program of diversification to survive. This requires a system to monitor customers, competitors and markets.

It's lack of organization, not motivation, that is causing sales bottlenecks at manufacturing organizations.

Traditionally, small- and mid-sized companies use the model of a Defender Organization, which operates well under stable market demand as there are few competitors and customers rely on loyal suppliers.

The model relies too much on one market or a few large customers. The organization makes money when its heavy investments in capital equipment and technologies are totally utilized. It has little or no defense for a stagnant or declining market (or the loss of a large customer) and does not have the people or systems to locate and exploit new markets.

The Defender Organization, by definition, is generally inflexible, slow to react, and requires a lot of overhead to operate. Unfortunately, in these types of organizations, the priority of important things to do always favors the internal, tangible, and process-based things; rather than the external, intangible, and customer-based things.

An example is a typical job shop that depends on known customers sending them requests for quotes. Sales is at best a part-time job, and there is seldom a sales manager or organization who are out calling on customers, finding out what is going on in the market, or looking for new market opportunities.

Now it's a different world: new competitors, changing markets, more demanding customers, and erratic margins. Manufacturers are going to have to adopt a program of diversification to survive. This requires a system to monitor customers, competitors, and markets.

Another problem in the current organizational structure is its inability to provide faster decisions for customers. This is due to the fact that these organizations are often shaped like pyramids with the decision makers at the top and all of the workers at the wide part of the pyramid foundation. Decision-making is slow because decisions must travel up and down the hierarchy, and top managers are too far away to understand the real problems.

Defenders Organizations also tend to rely on functional organization structures, which have centralized departments such as purchasing, accounting, human resources to achieve economies of scale. Overhead departments are often physically separated from the sales and production departments, which can result in built-in obstacles and barriers to communication that slow order processing. Overhead departments often become little empires with agendas very different from the rest of the company, and they function more like outside contractors than as parts of the company

Customers are constantly demanding shorter lead times, and faster responses to phone calls, quotations, service requests, parts sales, and every other communication that has to do with products and services. Shorter lead times are difficult to achieve in the traditional functional manufacturing organization because the very structure of the Defender Organization slows down the production process.

If growth in sales and diversification is the new mission of the manufacturing company American manufacturers need to adopt a new type of organization — the Prospector Organization — to be able to grow in the future.

### **The Prospector Model**

Changing from a Defender to a Prospector Organization is a serious challenge because it means moving from an operations-oriented company to a market-oriented organization that can find new customers and markets.

Succeeding in the new global economy will require an organization that is some variation of what professors Miles and Snow call a Prospector Organization. Prospectors, according to Miles and Snow, are very different than Defenders, and are described as follows:

- Market driven: They allow new customers and opportunities to drive their companies because of their ability to conduct external surveillance.
- Multiple markets: "Unlike the Defender, whose success comes primarily from efficiently servicing a stable, primary market, the Prospector's prime capability is that of finding and exploiting multiple market opportunities."
- Marketing and Selling: "Prospectors maintain the capacity to monitor a wide range of customers, market conditions, trends, and events. The Prospector, therefore, invests heavily in individuals and groups who can scan the environment for potential opportunities. At a minimum this will mean having a full-time person calling on customers face-to-face if the same person is expected to also monitor customers and do market surveillance.

- Formalization and administration: "Prospectors develop only a low degree of structural organization, since it would not be economically feasible to codify job descriptions and operating procedures in an organization whose tasks change frequently."
- Product organization: "The logical extension of the Prospector approach is the product organization in which all resources needed to research, develop, produce, and market related groups of products are placed in single self-contained organizational subunits. The company is decentralized into many divisions and subunits." This decentralized organizational structure is a flat organization with many units, cells, and teams.
- Decentralized command and control: "Control is decentralized because the information needed to assess current performance and to take the appropriate corrective action is located in the operating units themselves, not in the upper echelons of management." Where possible overhead departments like purchasing and accounting are incorporated into the division.
- Decentralized decision-making and communication: "Prospectors prefer short, horizontal feedback loops. Therefore, when a deviation in unit performance is detected, this information is not channeled to higher management for action, rather it's fed directly back to the unit for immediate corrections." This is truly an example of pushing responsibility and authority down to the people who do the work. This type of organization gives Prospector Companies the ability to quickly respond to customer demands.
- Quick-Response Manufacturing (QRM). Customers continue to demand short lead times, particularly when the company is after new customers. The best way to shorten lead times is to change from a functional organization to a product-based organization, and to adopt QRM (Quick Response Manufacturing) methods. QRM methodology fits the Prospector model very well, because it is an enterprise-wide strategy that goes beyond the shop floor. QRM also provides executives with a strategic view of time (the power of time) and helps them rethink decisions on capacity (system dynamics).

### **Moving From Centralization**

The one common thread of all manufacturing organizations is that they all have to move away from a centralized organization, flatten the pyramid, and hire people who can do the selling and marketing to find new customers and markets. Here are two examples:

#### **Minster Machine**



Minster Machine, headquartered in the Ohio, has used lean manufacturing techniques for quite a few years to reduce costs and waste, but lean was not providing a practical way to shorten lead times for manufacturers of highly engineered and custom products. Joe Kumpf, vice president of the Midwest divisions decided to try some QRM methods, a process totally devoted to lead time reduction. It was invented by Rajan Suri.

The company decided that a new type of organization was needed to find new markets and develop new products. "We have eliminated the functional organization and created focused divisions that have clear commercial goals, understand their capabilities, and become intimate with their customers," Kumpf explained. Minster went from one large functional organization to seven different divisions with different, but coordinated missions.

Kumpf adds, "Changing from a functional organization, means keeping the divisions as flat as possible, to avoid building functional walls. It also means eliminating functional department management whenever possible. At Minster, people with various skills all report to a manager who has responsibility for serving the customer. The result is lots of interaction across disciplines (and work across disciplines, too)."

### **SEMCO Inc.**

The second example is a product manufacturer called SEMCO. Their owner, Ricardo Semler, took many chances in developing a new type of organization that could respond better to both customer needs and employee needs. He experimented with what would be considered "radical organizational concepts" that were featured in his book "Maverick." The new manufacturing organization he created pushes the very limits of organizational change.

Semler decided that it was going to be impossible to push authority down to the people who were doing the jobs as long as he had a Defender (functional) Organization. So, he scrapped the pyramid and organized the company into smaller business units. He tried to make a flatter organization in which communication was easier between employees. "The only way to change is to make each business unit small enough so that people can understand what is going on and contribute accordingly."

He continued, "I wanted our people to have more contact with one another. I wanted less clutter. I wanted fewer levels. I wanted more flexibility. I wanted a new shape for our organizations."

So Semler scrapped the Pyramid organization and organized the company into three parts. As a matter of fact, they abandoned all organization charts. Ricardo said by

breaking the company down into smaller units it made the employees “feel human again, feel involved, feel that they belong.”

In fact, SEMCO went ahead and began eliminating all types of structures, rules, and top-down policies. He also determined that functional organizations, by their very design, create small “fiefdom departments” that tend to grow into self-serving entities playing by their own rules. In his war against functionalism, he closed down the entire Information Technology department, when he found out it had become a priesthood of people who made systems more complex, harder to use, and was very expensive to boot. The department couldn’t get all of the invoices out to the customers with all of its complex computer equipment.

Semler says “we no longer have all those programmers, or keypunch operators; we have dismantled our information systems department and thrown out the systems master plan.”

Well, did all of those radical organization changes really work? When Ricardo started the project to remake SEMCO into a new company, sales were down to \$4 million per year, the company had a lot of debt, and productivity was terrible. With the implementation of Semler’s changes, SEMCO grew at a rate of 40% to 50% per year to \$35 million in sales.

Both Minster and SEMCO developed organization models for manufacturing companies that will survive and prosper in the new century.

## **Chapter Three:**

### **Finding New Customers and Markets**

Real security for manufacturers is to develop a diverse group of customers and a portfolio of market niches that will help the company to be able to 'ride-out' the cyclical nature of many industries and the fickle nature of many customers.

If you examine the customer list of most small and mid-size manufacturers (SMMs) you will find the 80/20 rule applies. In other words, 20% of their customers account for 80% of their sales volume. In fact, it is common for only 10% of the customers to account for most of the supplier manufacturer's sales volume.

This is a dangerous situation for two reasons. First, if the large customer decides to offshore or give the business to a lower cost competitor, the company will be in jeopardy. Second, growth will be totally limited to the business that these customers allow the supplier.

Real security for manufacturers is to develop a diverse group of customers and a portfolio of market niches that will help the company to be able to "ride-out" the cyclical nature of many industries and the fickle nature of many customers.

### **Diversification as a Strategy**

A good example of diversification is SRC Holdings, which is located in Springfield, Mo. When the company opened for business, following the recession of 1983, its area of expertise was engine remanufacturing. The company had taken on \$8.9 million of debt.

"When we were starting out in the 1980s, more than 75% of our labor hours were in the truck market," says CEO Jack Stack. "We did some investigating and found out that the truck market has a recession every six years. So we had to ask ourselves what we'd do if we had a recession."

"We thought about what goes up in a down market," he continues, "and we discovered that automobile parts go up, because people keep their cars longer and fix them. That's how we got into the automotive aftermarket business. That kind of thinking became part of our culture and our way of doing business."

Stack knew the more the company diversified, the safer it would be. SRC Holdings is now a mini-conglomerate with 26 businesses and 1,200 employees. They make automobile engines, refrigeration units, agricultural machinery, irrigation pumps, and much more.

SRC Holdings is not an unusual example. It makes the point that in the new global economy all manufacturers must defend themselves and consciously avoid a concentration of customers that can put them out of business. The answer to bad customers who control the majority of your sales is diversification.

Why can't we just ask our sales reps to find new customers and markets?

Many manufacturers still think that it is the job of the sales organization to find new customers and markets. However, an audit I did in the 1990s showed that most sales reps don't do this function and 90% of the manufacturers were unhappy with their sale coverage. Currently most sales reps are not going to make cold calls without a lead. Independent reps and distributor salesmen simply can't afford to make these kinds of calls because they are only paid when they get an order.

The plan to define what kinds of customers and markets are the targets as well as to develop a lead generation program to help find the prospects should be designed by the manufacturer. Trying to make the sales organization find new customers and market opportunities on their own is like trying to make a pig dance. The pig is not built to dance and when you try to make it dance it just gets mad.

This article will examine some practical approaches to finding new customers and market niches. They are based on insight, instinct, common sense, and a good portion is frequently intuitive. You don't have to use academic approaches like market segmentation to be successful. The following real-life examples will show you how other successful SMMs went about finding new customers and market niches and will prove that niche marketing does not have to be complicated to be highly effective.

Here are some approaches companies can follow.

### **Hiring Your First Outside Sales Manager**

For many job shops who have always used inside sales people, the answer may be as simple as hiring their first outside sales manager.

The Plastics Group (TPG) is a high-tech injection molding shop specializing in the development and manufacture of critical plastic products and components. The staff consists of a team of manufacturing professionals ranging from well-trained operators and assembly people, through expert molding and laboratory technicians to seasoned engineers who have a wealth of experience with plastics and their applications.

In the first three years of the company, sales and margins were erratic and one large customer dominated the company. They did not have a focus in the marketplace, and the large customer was always demanding changes that continuously eroded margins.

TPG management decided to take a totally different approach to the market. They decided to fire their largest customer and hire their first outside sales manager. They wanted to develop a way to find the right customers and markets that fit their core competencies, and decided to create a brief marketing plan. The marketing plan was very succinct (6 pages) and included the following:

- One page on the company profile
- One paragraph describing the marketing niche
- One page showing the sales goals and a four-year sales projection
- One page showing the "Criteria for Most Valuable Customer"
- One page describing the marketing strategy for finding new business and customers
- One page describing the sales force and potential channels of distribution

Once the customer criteria were established, the sales manager developed a list of several hundred potential customers in Georgia. He called all prospects on the phone and most were sent mailers. After an account was qualified, a visit was arranged for personal contact and a verification of needs, usage, and potential. With this qualification process, they reduced the large list of prospects down to 12 companies with the best potential. All of these companies had personal visits from TPG management and the company gradually began to get sales contracts from them.

The company moved from a small financial loss on \$1.1 million in sales in the first year to a solid profit in the second year. Their marketing plan and new focus on specific types of customers began to pay off with new sales and solid growth. The company grew from 16 employees to 42 employees and to nearly \$3 million in sales in 3 years.

### **Using Vertical Integration to Define Customers and Markets**

Ron Davis, CEO of Davis Tool, also saw the handwriting on the wall for commodity job shops as customers began sourcing more and more parts from Asia. "If customers have the time, they can get anything they buy from us for less money in China," Davis explains.

Davis Tool decided to change their strategy to offering quick turnaround on custom or low-volume jobs. Davis knew that many of their customers were operating on a just-in-time basis and could not live with the uncertainties of using foreign suppliers as long as the deliveries were quick.

Part of the new strategy was to profile their customers to find out which customers best fit the new service offering and where they could gain a competitive advantage with their offering. The best customers were those companies that were operating just-in-time and needed high quality and overnight service. One of their customers is Lite Edge Inc. of Tualatin, Ore. John Erickson of Lite Edge says: "We operate on a just-in-time basis and frankly can't live with the uncertainties of ordering overseas."

To achieve this goal, Davis had to vertically integrate his company. This required offering machining, fabrication, nickel plating, anodizing, laser cutting, tool design, Solid Works, Pro-Engineer, powder coating, painting, and engineering design from one location. This strategy allows Davis Tool to offer very quick deliveries and gives them control of most processes. Davis also invested heavily in the latest and most efficient machine tools

The strategy also included a conscious effort to diversify into more market niches and industries. Davis Tool sells to the high technology, military, medical, and aerospace industries, as well as the many market niches and applications within these industries.

The result of the new strategy is that they have reduced their flow time (average time a work order is open) from 40 days to 17 days. They are working 3 shifts, 5 days a week.

### **Using Proprietary Processes to Define Customers and Markets**

Nimet Industries is a 65-person job shop that offers proprietary anodizing and electroless nickel finishes. One of their primary strategies is to offer proprietary processes in finishing. Nimet has developed a family of NiTuff products: a PTFE (Teflon) impregnated dyed black hard anodize as well anodizing in clear, blue, and red. They also offer NiCoTef, which is a co-deposition of nickel and PTFE. Both proprietary processes provide them a significant competitive advantage in the marketplace. They plan to continue the development of these special processes and expand their current twelve product lines.

Nimet has consciously tried to diversify into industries such as medical, dental pharmaceutical, food processing, fluid power, and electronics. Within these industries, there are many market niches defined by processes and application. Guy Ellis, vice president says, "The advantage for us is that when one industry segment is down it's hardly a blip in our sales. We really try to diversify as much as we can to minimize the impact of business cycles on our company."

As Nimet began to produce these PTFE impregnated finishes for other companies, they signed a license agreement with a company in Switzerland that was making fluid power components. They now have 5 licenses and provide their NiCotef finishes on bronze, steel, stainless, and other substrates besides aluminum. Nimet has also licensed a new

technology from a company in the Netherlands. The new technology is a multi-color anodizing process that is a third proprietary process to offer their customers

### **Identifying an Emerging Market Niche**

Another way to diversify your company is to identify new or emerging market niches. Back when I was the sales manager of a company who built palletizers, a new application emerged that demanded new high-speed methods and equipment to handle the cartons of copy paper without damage. This special request was about handling Xerox type copy paper without damaging or marking the cartons on 24-hour a day converting lines.

I visited Nekoosa Paper Co., and found that they were installing a new German high-speed sheeter manufactured by E.C.H. Will of Hamburg, Germany. A sheeter is a huge production machine that converts large rolls of paper into sheets of photocopy paper. Will's new sheeter could run three times faster than equivalent American machines and I thought there would be opportunities for the new sheeters in many American paper companies with converting operations.

We designed a new variation of our standard heavy duty palletizer to connect to the new sheeters by adding a new "turntable" device that would gently turn the Xerox cases in either direction without touching the sides of the cases. This simple line extension gave us a unique competitive advantage, and we received an order for nine machines from a large paper company.

In researching further, I found that the copy paper segment of the paper industry was growing 10% to 15% a year and that many large paper companies had special converting lines and contracts to make copy paper. From several paper industry associations we acquired lists of all paper and pulp mills in the U.S. The total was less than 200 companies, and my marketing job was to find out which of these mills were installing new converter lines.

E.C.H. Will had already done a good job of examining the U.S. market and had targeted many paper mills as candidates for new lines. I had a good contact at Will, so we just followed them wherever they installed a sheeter. This niche strategy worked well for both E.C.H. Will and Columbia Machine. Between 1975 and 1984, 100 Will sheeters were installed in the U.S., and Columbia Machine received 99 of the palletizer orders for these new lines.

### **Entering a Market where Customers are Known**

Manufacturer of sawmills, paper mills, concrete block plants, and bottling plants are all known markets where all customers and prospects are well defined. Finding new customers in a new market that is well defined is much easier than the previous examples.

For instance, if you have a product that may have applications in sawmills there are Forest Industry trade directories that list about 3,000 sawmills in the U.S. The market for automated sawmill machines can be further sub-divided into a segment of 300 to 400 large sawmills. Since virtually all sawmill locations are known, it makes sense that the best method to find new prospects for sawmill equipment is to have direct sales reps stay in contact with each plant. In this case, lead generation is not the primary method – or even the most cost-effective method – for finding new projects.

An example is the Black Machinery Co., which has annual sales of more than \$100 million. They could afford to hire a factory direct sales force. They used five salesmen in the Southeastern U.S. and five on the West Coast.

All sales people were assigned to geographic territories with a specific number of accounts to cover every year. This sales force coverage and the prospecting was so good that the company regularly was able to bid on more than 95% of all projects occurring in the U.S. Finding the projects was not a problem. Their challenge was closing enough of them to make their forecast.

Finding new industrial markets and new customers seldom begins with sophisticated computer models and statistical techniques. In most cases, it's a matter of experimentation, and trial and error with many customers and markets. A good portion of it is frequently intuitive and commonsense. Successful manufacturers start out with a large list of potential prospects that might be interested in buying. They gradually narrow their focus (reduce the number of prospects), by systematically eliminating prospects that don't fit their customer and market profiles. If they are persistent in their sales prospecting, the focus eventually defines the right customers and markets.

These are just some of the practical methods used to find new customers and markets. The next issue will explain how to find new customers using your own internal information.



## Chapter Four:

### Finding New Customers and Markets Using Internal Information

Changing from an order taker to an order maker, is about creating a system to find new prospects and market opportunities.

If you keep a good database with information on both customers, prospects, quotations, and leads there is a lot you can do with this internal information that will help you find new customers and market opportunities. Here are some suggestions:

Profiling Customers - Can you identify the best customers to sell –now and in the future?

Profiling your customers is the first step in finding new customers because it is important to know how to profile the best customers, the right customer, a profitable customer or one with future sales potential to profitably grow your business. The simplest way to achieve this is to carefully profile the ideal type of customer, and then find more like them.

Begin by printing a list of all accounts sold in the last 12 months (or you can vary this timeframe from 1 to 3 years) by sales volume, from the largest volume to the smallest volume account. It is also very helpful to include the average profit margin percent of each account before overhead. This may appear to be a difficult task, but do it anyway. The information will pay off over and over again. If you can't provide margin information, then begin with a list by sales.

Then assign NAICS codes to each customer account (See the following chart). The government has devised a method of classifying all products with a code. It is called the North American Industrial Classification System (NAICS). You can find it on the Internet by going to [www.naics.com](http://www.naics.com).

You now have a list of customers that will include the following information.

<b>Company</b>	<b>City</b>	<b>State</b>	<b>Sales</b>	<b>Gross Margin</b>	<b>NAICS Code</b>
DEKA	Austin	TX	800,000	24	33441
OECO	Poplar	MA	575,000	40	33441
Puget	Portland	OR	570,000	41	32614

**Evaluate Good (+) and Bad (-) Customers**

The next step is to determine Good and Bad customers by simply marking each customer account “+” or “-.”

	Yes	No
1. Are they profitable? (Sales - C.O.G. Sold. = Gross Profit	___	___
2. Customer has potential for significant future revenues?	___	___
3. Do they truly value what you do well?	___	___
4. Are they a springboard to other like customers (referrals)	___	___?
5. Can you serve them better than competitors?	___	___
6. Is this customer financially healthy?	___	___
7. Do they pay their bills on time?	___	___
8. Do indirect expenses reduce your gross profitability?	___	___?

Consider the following: Returns/allowances, warranty, paperwork, field service, special engineering, credit terms, complexity of quotes, high number of sales calls, senior manager’s time, inventory demands, price discounts, special delivery, and overtime.

Now go through the list and mark each customer as a plus “+” or a minus “-.” A plus is a customer that you think has good future sales potential. The NAICS codes for these Best Customer Profiles will help you **find more like them**. You also will be able to guide the sales organization with a list of real target prospects

The customer profiling method also forces you to consider what you will do with bad customers. You are entitled to a fair margin. And good customers — even tough ones — will recognize that you, too, are entitled to make a profit. You may need to prune some bad customers for a variety of reasons. If this happens you will immediately be in the position of having to find customers to replace them and launch a program of market diversification.

### Using your Quotation List to Find New Markets

Begin by printing a list of all quotations in the last 12 months (or you can vary this timeframe from 1 to 3 years) by sales volume — from the largest sales volume to the smallest volume account.

Each customer account was assigned a NAICS code. So the next thing to do is to group these customers into market niches. If your customers are in a spreadsheet, you can sort the NAICS Codes from the smallest to the largest number.

The market segment groups can then easily be identified and grouped together as shown in **Figure 1**.

For clarification, an industry is usually a 3-digit code such as 322 in the Paper industry. Tissue/towel is a general market segment with a 6-digit number. A very specific market niche can be a 6- to12- digit SIC code number.

### **Determine Market Size by Prospects**

This requires that you access a database such as the Dun and Bradstreet's I-MARKET and find out how many prospects are in each market segment. This will give you a preliminary idea of the market size you will be "prospecting." For instance, the market niche designated as tissue towel (NAICS 3221220 in the next chart has 221 prospect companies in the U.S.

**Figure 1- Grouping, Prospects into Markets and finding Prospects**

<b>Market Niche</b>	<b>NAICS Codes</b>	<b>#of U.S. Prospects</b>
<b>1. Tissue/Towel</b>	<b>32122</b>	<b>221</b>
<b>2. Bottled Water</b>	<b>312112</b>	<b>132</b>
<b>3. Dairy (cheese, ice cream)</b>	<b>311520,311513</b>	<b>1,833</b>
<b>4. Meat Products</b>	<b>311612</b>	<b>1.344</b>
<b>5. Canned Foods</b>	<b>311423</b>	<b>638</b>
<b>6. Frozen Foods</b>	<b>311410</b>	<b>474</b>
<b>7. Cereals</b>	<b>311234</b>	<b>556</b>
<b>8. Spaghetti, Macaroni, Pasta</b>	<b>311823</b>	<b>161</b>
<b>9. Soap, Cleaner, Bleach</b>	<b>325611</b>	<b>621</b>
<b>10. Candy, Confections, Nuts</b>	<b>311320,311330</b>	<b>315</b>

By developing profiles of your Best Customers and Markets using NAICS codes and employee size, you can now find more prospect companies like the profiles. All of the market segment NAICS codes listed above were looked up on the D and B online database. Each code revealed the number of potential prospects for the entire U.S. You can also look up these prospects by state and county and purchase a list of the prospect companies for any specific geographic area.

#### **Develop a Sales Plan to Begin Making Sales Calls**

**Congratulations. You now have the information you need to develop a marketing or sales development plan. A complete plan will usually include:**

- **Lead Generation program**
- **Prospect Qualification system**
- **Telemarketing to explore new markets**
- **Target Account list for each territory**
- **Sales Call Schedule.**

#### **So how do you use this stuff? A Simple Market Probe Example**

Johnson Packaging is a manufacturer of specialized equipment that can fill Kraft paper bags. In assigning NAICS codes to their quote list they found a new market niche in the cheese industry. The customer wanted to replace a manual method of filling bags with some kind of an automatic machine. Johnson Packaging would have to do a lot of new engineering to modify their standard machine to handle the dry food products, but they quoted the new application and were awarded the order.

They installed the machine and it worked great. The next question was how could they find more customers and sales for this specialized machine in the vast food industry? They only had three manufacturing reps and had to operate with a tiny marketing budget.

The specific product was cheese whey. A consultant who had worked with the company from its inception helped them look up the NAICS code on their current customer. The following chart shows the results of this simple search.

**NAICS code search**

<b>Market Segment</b>	<b>NAICS Code</b>	<b>SIC Code</b>	<b>Plants</b>
Food industry	311	20	23,000
Cheese – natural & processed	311513	2022	712
Processed cheese	311513A	2022-01	332
Dry condensed cheese & whey	31151416	2023	191

Finding the market niche: The machine that Johnson Packaging designed was a very specific design for a very specific product application – dry condensed cheese whey in 50 lb. bags. They could not sell this machine to all dairies or all cheese plants. The market segment was all plants that processed dry condensed cheese and cheese whey in the U.S. as a by-product. There were 101 plants in the U.S.

Finding the number of prospects in a market niche: The market segment was further refined into a specific market niche by looking only at plants with more than 25 employees. Johnson learned from the initial customer that plants with less than 25 employees usually did not have the production rates to justify an automatic filling machine. When the list was refined further to eliminate all small plants with less than 25 employees, the market niche turned out to be 85 plants in the U.S.

Locating the prospects geographically: The geographic distribution of these plants in the U.S.

Number of Cheese Whey Plants, by State: California 7, Missouri 1, Pennsylvania 4, Colorado 1, Mississippi 2, South Dakota 1, Connecticut 3, Montana 1, Tennessee 3, Florida 3, North Carolina 1, Texas 2, Iowa 1, Nebraska 2, Utah 1, Illinois 6 New Hampshire 1 Washington 3 Kansas 1 New Jersey 5 Wisconsin 11 Kentucky 3 New York 5 Michigan 5 Ohio 3 Minnesota 8 Oklahoma 1 Total 85.

Sales prospecting in the new market niche: Johnson Packaging purchased the list of addresses and phone numbers of the 85 plants which were located hundreds of miles from the rep's office. With only three part-time independent reps that were located in Los Angeles, Chicago and Boston, it was going to be difficult to call on all 85 plants in

27 states. The factory decided that it would be most efficient for the factory to do the initial prospecting because of sales call costs.

Qualifying leads: The factory hired an outside business-to-business firm that was skilled at sales prospecting for industrial products. The B to B firm called every prospect company on the list at least three times. The results of the sales prospecting were as follows:

**Transactions Activity level**

Total number of plants called.....	85
Successful contacts.....	70
Faxes sent to contacts that process whey .....	55
Successful follow up calls and contacts .....	45
Prospects who wanted literature and more info ..	20
Prospects who wanted pricing .....	10
Sales over a 12 month period .....	(5 units)
Sales over a 12 month period (dollars).....	\$500,000

Finding new markets and customers is not the responsibility of the sales reps. It is up to the manufacturers to profile the best customers, find new market niches, and determine how many prospects are in each niche. It is also very important to qualify each prospect before a direct sales call is made. The key point is that changing from an order taker to an order maker, is about creating a system to find new prospects and market opportunities.

## Chapter Five:

### Using Inquiries to Increase Sales

Increasing sales using inquiries requires a commitment to follow-up and qualify every inquiry.

Using inquiry generation techniques to find new markets and the right customers is the most inexpensive and practical method to increase sales. It is ideal for small manufacturers who do not have field sales organizations or are being forced to find new markets and customers for the first time.

I like to use the words “inquiry” and “lead” to define different aspects of the sales prospecting process. An inquiry is simply an unqualified prospect you may have picked out of a database or someone who may have requested some information. A lead is someone that has been qualified as a prospective buyer who has a need for the product, has a budget for the product, or has the authority to specify or buy.

I can explain inquiry generation techniques with a real-life example I will call General Material Handling (GMH). It shows how a small industrial manufacturer without a sales organization found new customers and markets on a very small budget. The lead generation and sales prospecting program made it possible for one inside sales person to get a new product line off the ground and reach the sales forecast in the very first year of operation.

Finding the Target Markets: By coding the quotation list and prospect list with NAICS codes from the previous year’s sales efforts, the company was able to determine the markets and the total number of prospects in the markets. The initial list looked like the following:

<b>Target Markets</b>	<b>Market Prospects</b>
Frozen Vegetables and Dinners	479
Cheese and Yogurt	223
Meat Packing Plants	734
Bottled Water	1,114
Drugs and Pharmaceuticals	500

### Useful Techniques

Once the target markets were identified, GMH needed to explore these market segments to identify prospects that could buy their machines. A variety of techniques were used to generate inquiries from the target market segments.

The techniques used were as follows:

**1. Advertisements:** They could only afford ¼ page ads in specific industry trade journals. They also ran the same ads in the digital version of the magazines.

**2. News Releases:** Many leads can be generated using press releases and new product releases in trade publications, and they are virtually free to manufacturers that know how to generate them. When a reader sees either a digital ad or product release in the digital version, they simply click it and automatically go to the company website.

**3. Editorial Stories:** Editors are always looking for good stories, particularly if the company writes them.

**4. Probing a Specific Market:** GMH decided that one of the priority markets that they needed to explore for sales opportunities was the pharmaceutical market. By pre-qualifying 500 different pharmaceutical companies, they reduced the list to 101 qualified prospects. All of these prospects were called by an outside telemarketing firm.

- 23% of the prospects were interested and wanted literature and videos mailed to them
- 6% of the prospects had potential projects and wanted a quotation or a salesman to call on them

**5. Website:** Prospects, particularly if they have a need, do not want to wait for information to be mailed to them. They will either call the factory direct or look at the company's website.

**6. Trade Shows:** Trade shows are another important source of inquiries. The cost to generate inquiries at a trade show is very high, so the company focused on small industry-specific shows.

Inquiry Follow-up – or why sales people don't do sales prospecting - Almost all industrial sales reps agree with lead and prospect qualification and would welcome focusing their time on 50 qualified prospects with projects, rather than 1,200 general inquiries. Today's industrial salesman is required by his or her factory or principals to do quotations, customer follow-up, training, service and a wide range of administrative tasks. Most do not have the time or patience to spend hours on the phone qualifying



hundreds of leads. Also, if they are independent sales people who live on commissions, they will be resistant to qualifying prospects.

## Overcoming Objections

There are three solutions:

**1. Convince the sales reps that it is their job.** You might be able to force them if they are employees and are threatened with their jobs.

**2. Hire a sales prospecting person to qualify all leads before sending them to the reps.** GMH had assigned a full-time product manager to the new product line, and he followed up on every inquiry with at least three phone calls.

He also sent out all brochures and videos to interested prospects and then followed up with them until the project turned into an order or died.

**3. Employ a sales prospecting service.** There are independent telemarketing services that have operators who are trained to handle industrial prospects and can do a lot of the prospecting and qualifying at a relatively low cost.

**4. Tracking leads-to-quotes and orders.** Tracking leads-to-quotes to orders is absolutely essential if you want to succeed with an inquiry generation program. Since you are going to spend a lot of time and money in finding and qualifying prospects, it only makes sense to design a simple spreadsheet to keep track of the activity. The prospect database can also be connected to the quotation and order information, which makes it possible to trace all leads-to-quotations and quotations-to-orders. The report will allow management to assess the costs and benefits of the lead-generation program and to make annual changes in media used.

The following is GMH's actual tracking sheet which summarizes the target markets, leads generated, quotes and orders for one year.

SIC codes	Telemarketing projects	No. of U.S. companies	Leads	Quotes	Orders
2037	Frozen vegetables	362	32	12	2
2037, 2038	Frozen dinners	465	33	13	3
2026, 2022	Cheese and yogurt	765	62	10	2
2024	Ice cream	357	44	4	2
2015	Meat – Poultry	412	23	5	2
2011, 2013,	Meat – Pork	722	20	6	3
2086	Bottled water	1,114	55	8	2
2083	Wines	150	22	7	2
2833 2834, 2835, 2836	Pharmaceuticals	898	45	6	3
	<b>Other Media</b>				
	Advertising		80	5	2
	Direct mail		41	4	2
	Press releases		151	3	1
	Trade shows		69	1	2
	Editorial		10	6	2
	Internet		125	4	1
	Misc.		20	7	1
<b>Total</b>		<b>5,245</b>	<b>832</b>	<b>101</b>	<b>32</b>

Results: The total cost of the lead-generation program was \$75,000 and produced \$1.6 million (32 orders) in sales the first year.

Email Probe of Target Markets - The telemarketing techniques that were used on this project have been replaced because of advances in technology and databases. The company now uses a system of email blasts to probe a market niche. They buy a list of names from a company like data.com, Jigsaw or Hoovers, which has the contact name, job title and specific email address. They can then send out a sales sheet describing their offer overnight in one "blast." The prospect can then reply by going to the company website or by calling a special 800 number.

Handling Strategic Accounts - If the manufacturer has done a good job of profiling its good and bad customers; it then has enough information to develop a strategic account list. These are the accounts that the company would like to sell in the future. In some industries, fewer than 105 of the customers buy 90% of the products. These customers can rapidly increase the supplier's market share so they need to be identified and targeted. If the company has purchased one of the latest CRM software packages, then anytime a person from one of these strategic accounts inquires it is automatically flagged to the sales department for quick response.

The owners and managers of small and midsize manufacturing companies are bottom-line-oriented people. They identify more with the tactics for getting orders than with the vagaries of brands or image advertising. No owner or manager is going to continue to

spend money on advertising and lead generation, unless it can somehow be justified. Manufacturing companies simply cannot afford to waste their limited resources.

The bottom line justification for advertising is sales. It is not the number of impressions on readers, the magazine subscription numbers, or the image created – it is sales. The message for everyone involved in creating a program to find new customers and markets is that it had better be directly connected to increasing sales, or the budget will probably get cut the next time around.

The most cost efficient method I know of finding new customers and markets is to develop a system to generate inquiries. But increasing sales using inquiries also requires a commitment to follow-up and qualify every inquiry or you are wasting your money. As the story on GMH shows, this approach works and can be very cost effective compared to direct sales or relying on the field sales organization to increase sales on their own.

## Chapter Six:

### Developing New Products that Sell

An optimal way to develop new product ideas is to get input from the external market place.

In this fast changing economy, manufacturers are having trouble just keeping up with both competitors and the changing needs of customers. This represents an opportunity because it suggests a very big need for line extension and modification to old products.

If innovation and new products are going to be America's leading competitive advantage in the future, then it is not enough to just become more innovative and do produce more products; the answer is to produce more successful new products that sell enough to justify their costs.

I define innovation as something that has been successfully brought into the world that has been justified by enough sales, while invention can be defined as a clever idea that is not necessarily successfully commercialized. A good analogy lies in the sport of mountaineering. It is not enough to suffer through all of the hazards and dangers of reaching the summit, you must get back down alive or it is not a successful climb. It is the same with new products. It is not enough to invent a clever product and to develop it through a complex stage-gate process; if you don't sell enough new products it is a failure.

In this fast changing economy manufacturers are having trouble just keeping up with both competitors and the changing needs of customers. This represents an opportunity because it suggests a very big need for line extension and modification to old products. The starting point for most manufacturers in the new product process is to carefully assess their product lines to determine if they have (or don't have) a competitive advantage – model by model.

While there is great potential in leading edge products like Apple's I-Pod, or using brand new technologies for new products such as nanotechnology where markets are not yet defined, however these types of new products require huge investments and are very risky.

From my experience with small and midsize manufacturers I think the most popular process of developing new products is still to invent a clever product and then go look for buyers. I call this the mousetrap approach because it is based on the assumption that if you build a better mousetrap, the market will beat a path to your door. Even though the failure rate is 6 out of 7 ideas it is still the method most manufacturers,

particularly small manufacturers, use. Why? Because it is much easier to devote your time to the joy of inventing something than to spend a lot of time finding out if prospects really want to buy it. Second, the mouse trap approach does not require leaving the factory and going into the market place to find out whether there are enough buyers to justify the costs of developing it. The fact remains that regardless of how unique or clever the product is, if customers don't buy enough of the new product the project will be a failure.

The alternative to "the mouse trap approach" is get input from the external market place. This is really an old idea that has been re-packaged under the banner of open innovation. This approach is about doing interviews with customers and prospects, but it is also about defining changes and trends in the market, using new technologies in your products, or licensing technologies from partners. This also includes collaborating with customers to develop a product for them as well as interviewing industry gurus and doing competitive intelligence.

The following are some examples that will explain different approaches to developing new products using open innovation techniques.

### **Getting Lead User Input for a Leading-Edge Product**

When visiting customers and prospects it is helpful to show them something tangible. It is easier for prospects to form an opinion if you get them involved with specification, slides, videos, isometric or concept drawings, cardboard mock-ups, computer simulated models, or a prototype. But get out there and let the market tell you what it needs. This step is particularly vital if there is no defined market as in the case of leading edge products.

Take the case of Gerry Langelier and his partners who started a company that could develop a new software product for what was to become the Computer-Aided Engineering market. Like most start-up companies, Gerry's new enterprise had limited funding and the partners had to work out of their houses to develop the new product idea. They spent weeks working on the specifications for a new software product, and had progressed to the point where they were convinced that they had invented a product that could revolutionize computer-aided engineering.

Unlike many high technology start-ups, Gerry and his partners knew they had to get a reaction from the marketplace before they asked people to invest the large sums of money that would be needed. They chose companies in the U.S. that they considered

target accounts for this emerging market niche, and decided to take their product idea to these accounts.

They were right. These companies not only told Gerry their needs and problems they helped him change the specifications to fit their future needs. After a whirlwind customer trip lasting four weeks, Gerry returned with a completely revised product and a lot of potential customers already knowledgeable of the new product.

There was still a lot of work to be done but they had defined the customer needs well enough to design a leading edge product that achieved phenomenal success. This small start-up company was named Mentor Graphics and would achieve sales of \$1.7 million in its first year of business.

This market-driven company would continue to lead the industry with customer driven, product development, and grow from a small start-up company to a \$400 million industry giant in less than 8 years.

### **Customer Collaboration and Investment in New Product Development**

Another good strategy was described in the [2006 IndustryWeek Census of Manufacturers](#). They asked product development executives which strategies are most effective for meeting customer requirements and bringing innovative new products to market. More than 97% selected collaboration with customers; 90% cited having the customer configure and specify the product; and nearly 90% said integrating design with their partners. Design becomes something that should be done with the customers not for the customers.

A good example is the material handling Division of Columbia Machine Inc. where I was General Manager They are a midsize manufacturer of automatic, material handling machines that stack consumer products at the end of a production line. To begin the process, I selected one of the biggest and best plants in the customer's paper division and made a call on the plant armed with engineering drawings and specifications of a new machine that had the potential of doubling the production line speeds. The customer liked the idea but they informed me that the machine design would have to be taller, wider, and be built to their plant specifications which were voluminous.

I offered them a deal where we would build a prototype machine, install it in their plant, and let them test it for 6 months. At the end of the test, they could buy or return the machine. This would give them time to evaluate the prototype in production and make design changes. This is the step that allows the customer or prospect to touch, feel, and operate the new product. With complex technical machines and other products it is very difficult for the customer to know exactly how the product will work or how it will fit

their needs until there is something to play with. This allowed the customer to suggest design changes and give us continuous feedback on the testing.

This is a critical phase of new product development for production line machines because as good as the design was, there is simply no way of finding out design problems until the machine is operating 24 hours a day in production. When a problem was discovered, the division had to react within 24 hours in terms of service or parts because the machine was in production. Organizing a team of service and engineering support people who could monitor the machine daily and make all necessary design changes was one of the most difficult challenges.

In this collaborative effort the customer invested hundreds of their own engineering and production hours testing and developing the machine. They spent six months of production time on making the new machine work in their plant. So both the manufacturer and the customer had made heavy financial investments in the new product project.

The bugs were all worked out of the new prototype and the customer had enough information to settle on a final design as the standard for all of their production lines. The new machine doubled their line speeds which drastically increased the amount of trucks leaving the plant everyday with paper products. The new machine eventually achieved 99% uptime on the product line, and the customer began purchasing new machines for all of their plants.

### **Experimenting with New Technologies**

Mike LaRocco, president of American Made in Pittsburgh, Pa., had become very experienced in developing new products for various segments of the trucking industry. By working with his truck dealers, he learned of yet another new problem/opportunity in trailer vans. This time, the problem was that plywood wall panels did not hold up to the scuffing and abrasion of fork trucks. His preliminary market research showed that both end users and truck trailer OEMs wanted a wall panel that would wear much longer than existing panels. For this project, Mike began by doing research on various types of new plastic and glass materials.

A small article in a trade journal led him to a trade show to meet a European company that had just developed a brand new high strength fiber material. Mike and his design team experimented with the new fiber product and figured out how to build a very hard (but very light) panel that was stronger than steel. He called this new composite product Bullitex because it would stop a 45-caliber bullet fired from 20 feet.

They built some prototype panels that were successfully tested on some trucking company vans. His next step was to design the special process and machines to build the van panels. The manufacturing process takes a multi-layered woven fiber material and processes it through a heating – compression – and a cooling stage, to create a final rigid panel. The Bullitex panel turned out to be (pound-for-pound) the most impact-resistant material available. It is water-resistant, withstands extreme temperatures, and eliminates cracking, splintering and snagging.

They were an immediate hit with all eight of the major OEMs who manufacture dry van trailers. This product saved the OEMs both in material and in the downtime it took to replace trailer wall panels.

### **Sales Potential and Forecasting**

After gathering all kinds of data in the marketplace, you should have enough information in the form of testimonials, interest, and an initial “snapshot” of the number of potential buyers in the niche you’re aiming at to convince yourself (and perhaps other investors) that the product has sales potential. The big leap of faith is to determine how many products can be sold in the first few years.

Most owners or investors will want to know how you arrived at the sales forecast in terms of units. They are looking for some kind of evidence that enough customers will eventually buy the new product to justify their investment.

You might begin by trying to find out industry data on similar products, which would at least show you the relative size of the market. Or you might get testimonials from prospects and customers on why they might buy the machine. If the product is small and low cost, you can make some prototypes and have end users evaluate them as a market test. Or if the product is large and expensive, you might consider inviting some of the most progressive end users to your plant to evaluate your concept, or make a deal to install a prototype in their plant for evaluation.

At a minimum you should have a clear idea of how many units you must sell a year to break even and how many years it will take to recover your investment. If you haven’t gathered enough information to do this calculation, you should either go back and get enough information to be convinced or abandon the new product idea.

But there are exceptions. If the investment is all your money and you don’t have to borrow money or convince investors, go for it. But if losing money on the new product



is a big deal or you are beholding to the board of directors and shareholders then spend the time in the market place like the people in these stories did.

## **Chapter Seven:**

### **Developing New Sales Channels to Fit Your Customers'**

The sales processes that worked for distributors, manufacturing reps, and integrators 10 to 15 years ago don't work very well today for capital and other equipment manufacturers, as well as job shops.

Sales channels are an often overlooked yet very important part of the sales program. If you have been losing orders or market share it may be that you don't have the right channels to fit specific customer needs.

Globalization, outsourcing, and foreign competitors have caused a revolution for American manufacturers. It began when the Fortune 500 companies began to reorganize themselves, source from foreign competitors, and lower their costs. These same large customers began to drive cost reduction from their vendors any way they could. Customers wanted more products and services at lower prices.

From the perspective of suppliers who sold them capital equipment the world of machinery sales changed beyond recognition. The buyers were issuing 50% more specifications with each Request for Quote (RFQ) on capital equipment which increased factory time and the cost of quotations.

Increasingly buyers did not want to buy just a machine; they were interested in companies that could propose and manage complete systems.

Suppliers also realized that customers were selecting foreign products over U.S.-made products more and more every year, and many of the customers wanted the American supplier to build his product overseas and pass the savings on to the customer.

This revolution caused by globalization was not limited to customers and their supplier companies. It has also caused great changes in sales channels. For instance, customers no longer had the central engineering departments they once enjoyed and began relying on the suppliers sales force to provide the services they used to do in their own engineering departments.

Multinational companies would not allow independent reps to call on them at their headquarters. They wanted direct engineer-to-engineer connections. And most importantly the buyers became more demanding and sophisticated and wanted sales people who could answer all of their technical questions. If the rep appeared to know less than the buyer, he would be eased out of the selling game.

All of these changes really affected independent reps and distributors whose selling efforts were based more on personal selling and relationships to customers. In many instances, the old selling approaches no longer worked and these rep and distributor firms needed to rethink their business models in terms of new customer demands.

Harry Brown of Mollo and Associates in Erie, Pa., says that the biggest change in selling is that customers want problem solvers and expert advice. He calls the new type of rep a sales engineer "who can offer engineering assistance as a 'freebie' with the sales package. In addition to the engineering perk, if manufacturing knowledge (experience) is offered it will enhance a long term relationship." He goes on to say that "being a pleasant person with a great personality will not carry the day in today's environment."

### **A Radical Shift in Sales Channels**

Sales channels and strategies that worked in the past probably won't work in the future. The sales processes that worked for distributors, manufacturing reps, and integrators 10 to 15 years ago don't work very well today for capital and other equipment manufacturers, as well as job shops. The tasks required to get the sale have changed dramatically, and suppliers are struggling to develop or find the right distribution and sales channels to support these new customer demands.

Given the fact that almost everything else is changing, it seems clear that your sales channels are affected by the same revolution, and they will also have to change to fit the new demands of the marketplace. The bottom line is you are going to have to find the right combination of sales channels that can balance selling costs and tasks.

In addition to these customer-driven changes, there is one more challenge that will demand re-thinking your sales channels. To grow in this new economy will require an ongoing effort to find new markets and new customers. Many progressive manufacturers are in the process of changing their sales and distribution channels to fit this new mix of customers and their new needs. This requires a bit of experimentation and a thorough examination of all of the tasks involved in a sale. Manufacturers must now re-evaluate whether the sales channel can handle these new tasks or whether they must find a new or different combination of sales channels.

### **Sales Task Needed**

One of the best places to begin when determining the type of sales channel you need is to define the sales tasks that need to be completed for the commission paid. It is a fact

that most customers now have leaner staffs and have transferred many tasks they used to do "in-house," to outside vendors and their sales channels.

It is really worth the time to sit down and review all of the tasks that need to be accomplished to get a sale. Here are some questions that highlight some of the sales tasks that changed in capital equipment sales.

Do your current sales reps have the ability to do the following?

1. Gather all pre-sale technical information?
2. Create complex proposals/quotations?
3. Layout the equipment on the customer's plant floor?
4. Provide CAD drawings for the customer?
5. Sell to a wide range of customers from small plants to multinational companies?
6. Manage complete turn-key systems?
7. Stage presentations in front of large engineering groups?
8. Train customers in the operation of the equipment?
9. Perform sales prospecting and generate their own leads?
10. Communicate with customer in terms of answering any technical question?

The second most important factor is the size and requirements of the customer. All 10 of these tasks become more difficult to accomplish when the customers are larger, as there are specifications and very complex request for quotes. In some cases, the tasks are so complicated that only the factory can satisfy the needs of the customer.

If you think you may not be getting the best or most cost-effective sales coverage for your current customers, or that one type of sales channel cannot fit all customer needs, you may need to consider multiple channels. This means reviewing the types of customers, their individual needs, their buying practices, the tasks the channels perform, the size of the order, and the sales costs.

### **Case Study**

A manufacturer I will call General Material Handling Systems had used manufacturing reps for many years. But as the projects became more complex and the company increasingly sold to large customers, the manufacturer's rep channels could not handle all of the sales tasks, particularly the areas suggestion in questions 2, 3, 5, 6, and 7, listed above.

After a careful examination of the types of customers and the sales tasks, they decided that the solution was Multiple Sales Channels. Their sales channels included manufacturing reps, specialized manufacturing reps, major accounts, direct factory sales people, and inside sales department

### **Here are some questions they asked during their sales channel evaluation**

- Are some of the customers so large and do they require so much support and specialized services that a sales rep cannot handle them? They did have customers that were very large, multinational companies with extremely complex buying requirements. They decided that they had to develop a major-accounts sales program to meet the needs of the customer.
- Do some of their customers have complex specifications with the RFQ requirements that their independent reps could not answer? This was another reason to either establish a major-accounts department or change the commission schedule.
- Do many customers require layout drawings and answers to very technical questions at the point of sale? Again, yes. Their answer was to use a highly trained specialized rep that knew as much as factory sales people and only carried a few synergistic product lines.
- Did some customers want to buy complete systems that were "turn-key projects" and must be project managed? Yes. The specialized reps could handle some of these systems, but most projects had to be managed by a factory-direct sales person
- Were some customers in small but identifiable market niches? Yes. These were market niches that could be assigned to an independent rep that has a good customer base in this market niche and sells other product lines to the same customers.
- Did some customers purchase in quantities or in order sizes that could not justify a FTF sales call? Yes, and because of the sales costs, these accounts had to be handled with catalogs, and inside sales department.
- Did any customers purchase parts or machine upgrades that were too technical or too low in price for reps to handle? The answer again was yes, and to assign these customers to the inside sales department
- Were some customers were small enough that they didn't write specifications or have complex RFQs? Yes, these customers could usually be handled by an independent rep.

The multiple channel approach worked very well and allowed the company to find many new customers and market niches. It took a lot of experimentation and a flexible commission policy but the manufacturer increased sales from \$10 million to \$25 million over a period of eight years.

Sales channels are an often overlooked, yet very important part of the sales program. If you have been losing orders or market share, it may be that you don't have the right channels to fit specific customer needs.

The scenario described in this article is now more the standard than the exception. The smart manufacturers and sales channels simply accept these changes and focus their efforts on how to change themselves to fit the new customer and market demands.

## **Chapter 8:**

### **Can we Grow American Manufacturing?**

America has done a good job of solving internal manufacturing problems, improving quality, and reducing waste and costs. These internal programs have kept American Manufacturing in the game. But there is a problem. Manufacturing isn't growing in terms of factories, % of GDP, employees, or sales revenue.

Staying with current marketing and sales strategies is not going to increase sales. The old paradigm of be loyal to your customer, depend on a few large customers, and focus all of your resources on improving your operational systems to reduce cost and waste, are not working.

If you examine the customer list of most manufacturers you will find the 80/20 rule applies. In other words, 20% of their customers account for 80% of their sales volume. In fact, it is common for only 10% of the customers to account for most of the smaller supplier manufacturer's sales volume. Needless to say, the profitability of these customers becomes a very serious issue. For the last 20 years, customers up and down the supply chain have been trying to reduce costs to compete in a global economy. The pressure from many of these larger customers has forced price/cost reductions onto their suppliers. But depending on a few customers for your existence is a dangerous game. They may decide to offshore their products, use a foreign supplier, or increase their pressure to lower prices.

### **Solutions**

The real answer is to diversify and find new customers and markets. Finding new customers and markets means taking an aggressive approach to expanding the number of customers in existing markets and also finding new markets. It usually requires expanding sales out of state and developing some method of generating inquiries. It will require new methods for prospecting and sometimes new sales channels or in some cases (like job shops) hiring the first outside sales person. This will, in most cases, automatically lead to changes in products and services.

### **Example**

A good example of how to diversify is SRC Holdings in Springfield, Mo. When the company first started (following the recession of 1983), it was doing engine remanufacturing and had taken on \$8.9 million of debt.

"When we were starting out in the 1980s, more than 75% of our labor hours were in the

truck market,” says CEO Jack Stack. “We did some investigating and found out that the truck market has a recession every six years. So we had to ask ourselves what we’d do if we had a recession.

“We thought about what goes up in a down market,” he continues. “We discovered that automobile parts go up, because people keep their cars longer and fix them. That’s how we got into the automotive aftermarket business. That kind of thinking became part of our culture and our way of doing business.”

Stack knew the more the company diversified, the safer it would be. SRC Holdings is now a mini-conglomerate with 26 businesses and 1,200 employees. They make automobile engines, refrigeration units, agricultural machinery, irrigation pumps, and much more.

This may seem like an extreme example, but it makes the point that in the new global economy SMMs must defend themselves and consciously avoid a concentration of customers that can put them out of business. It is better to go on the hunt for new customers who will see the value of your price and products than to continue accepting losses or no growth in sales.

## **6 Essential Questions**

If you need to find new customers and markets you should begin by answering the six basic questions to see if the company is ready.

1. Can you identify the best customers to sell – now and in the future?
2. Do you know which market niches (customer groups) to focus on now and in the future?
3. Do you know what kinds of products and services the best customers want?
4. Can you compare your products to the competitor’s products in terms of price, delivery, key features — model by model
5. Do you know the specific reasons you lost orders to competitors for every known lost order in the last year?
6. Do you know if you are making adequate margins on each product line, model, or job?



Hoping that something will change to help American Manufacturing (like the Chinese agreeing to not manipulate their currency) is dangerous because it is very political and the Chinese are committed to taking more manufacturing away from the U.S. no matter what we say or do. Hope is not a plan or a sustainable strategy. U.S. manufacturers need to find ways to grow without relying on the government, politicians, economic changes, or the Fortune 500 companies for their salvation. And I believe there are many reasons that we can do it.

## Reasons for Optimism

There are tremendous opportunities for those manufacturers who can adapt to the new economy. In fact, even with the stagnation of U.S. manufacturing, there are still opportunities to grow, create new products, access new markets, and create jobs.

As old industries dwindle and large customers evolve to adapt to globalization, your company will be part of this change. That can be good news, as many new industries; hundreds of new market niches, and thousands of new applications will emerge.

Here are nine reasons why manufacturers should be more optimistic about emerging opportunities:

**1. The Promise of New and Growing Industries** — There are going to be many industries that continue to decline and perhaps some — like semiconductors, apparel, and shipbuilding — will never come back. But there are other industries that are emerging and evolving that will provide new opportunities for manufacturers in the future. Among those industries are many technology industries — manufacturing in areas like biomedical devices, nanotechnology, nano-manufacturing, informatics, biotechnology, pervasive computing, analytical instrumentation, cyber-security, data storage, micro electromechanical systems, robotics, specialty metals, supercomputing, tissue engineering and electro-optics. There is a good chance that some of these technologies might blossom into high-growth industries. There is an even better chance that many of the new technologies will evolve into technologies that can be used by SMMs in developing new products

**2. Traditional Industries** — Most of the plants in traditional industries are not leaving the country. In big industries like food, paper, and consumer products, there will be ongoing changes to plant production lines to increase performance and to handle all of the changes caused by new products. For instance, in the food industry there are thousands of packaging changes that result in thousands of opportunities for new applications, equipment modifications, and new machine designs. New applications mean thousands of new market niches.

Another example is packaging and the packaging industry. Every time a large consumer products manufacturer changes the packaging of their products, it can cause a chain reaction of opportunities down through the OEM suppliers that supply machines for their production lines. For example, saving money by eliminating the traditional corrugated or cardboard cartons and replacing them with some kind of shrink-wrapped package or plastic bag will cause every machine in the production line to be redesigned or changed in some way. In every major industry, there are thousands of packaging changes that result in thousands of opportunities for new applications of machines and new machine designs.

**3. The Asian Countries Are Not Invincible** — Remember in 1980 to 1985 when manufacturers began believing the Japanese were invincible? They were higher quality, lower priced, and seemed to be taking market after market away from us. Then they got into economic trouble and, suddenly, they were less than the powerhouse we had envisioned.

Today, we are all living in fear of the new Chinese juggernaut and they are taking products and markets away from American Manufacturers. But they already have problems with energy, resources, banking, litigation, and rising labor costs. If they didn't keep their costs low through currency manipulation a lot of American companies would bring products back now being made in China.

They are also experiencing quality problems with food, toys, and many other consumer products. There are also reports that quality problems are beginning to show up in industrial goods like parts going back to U.S. assembly lines that are supposed to be just-in-time. In this situation, the original unit costs the Chinese predicted do not look so good. If these trends worsen, China is an economy that might implode. My bet is that China will eventually go the way of Japan, and we should not view them as invincible.

**4. New Services Will Be Needed** — Along with all of the opportunities for innovative new products, there will be a demand for new services. Customers don't need just new products; they also need new services from manufacturers. There are opportunities to sell new services such as design, start-up, training and education, on-site maintenance, repair, emergency, financing, trade-in, dismantling, consignment, and a host of other services. Providing services to U.S. customers is more efficient in the U.S. so get creative in dreaming up new services to offer your customers.

**5. International Markets** — Everyone, including the Europeans, is coming to our markets, but American manufacturers on the whole don't seem to be interested or ready to compete in international markets. We have been spoiled for a long time — doing

business in this giant U.S. economy — and haven't had to market internationally. But growing foreign markets are a big opportunity for American manufacturers if they can learn how to do industrial marketing.

**6. Products Coming Back To America** — Many companies have found out that quality, delivery and legal problems will make the total cost of outsourcing to Asia not worthwhile. At minimum, large companies will find it wiser to split production between U.S. and foreign suppliers in case the foreign supplier can't deliver what was promised.

**7. Market Proximity** — The biggest single advantage American Companies is close proximity to the customer and for complex industrial products this is more important than unit costs. This is a partial reason Japan and other nations build manufacturing plants in the U.S. to serve our markets. We have a proximity advantage.

U.S. manufacturers are geographically closest to these industries and can seize the initiative for finding the best solutions to new applications. It's all about monitoring customers and their problems.

**8. In-shoring** — Foreign manufacturing companies have invested \$40 billion in assets in the U.S. that now employ six million employees. This is called "in-shoring." There are many examples of foreign companies that have invested in the automobile, steel, appliance, machine tool, and lift truck industries in the U.S. These are only some of the foreign investments and they beg the obvious question, "Why is it that foreign companies can build plants in the U.S. and hire American workers to compete while American companies move offshore?" I think it is only a matter of time before U.S. companies figure out that keeping plants close to their markets and suppliers is the best way to operate.

**9. Future Technologies?** -There are many new advanced materials that have been in R&D for many years and will eventually become available to small and midsize manufacturers (SMMS). They are technologies such as Advanced Stainless Steel and "Superalloys," Advanced Ceramics and Superconductors, Carbon Nanotubes, Nanopowders, Advance coatings, Thin films, Bioplastics, Advanced high strength steels (AHHS), and Nanosize sensors and generators. I have only mentioned some of the advanced technologies that can be used by suppliers to develop new products and services. There are also new technologies coming along in biotechnology, pharmaceutical, and chemical and energy industries.

American manufacturing has stabilized at around 11% of GDP because all of the internal efficiency programs kept us in the game. But I am making the argument that to grow in

terms of sales revenue, GDP, or jobs is going to take a different approach from what has been accomplished in the last three decades.

First of all, I think it will take a mindset change from an internal to an external focus. By external approach I mean more aggressive techniques to monitor customer wants and needs, market trends, and competitor products. It is all about doing a better job of finding out what is going to happen before it happens

Instead of waiting for things to change or waiting on the government to change policies, I would advocate that companies should go on the offense, take matters into their own hands, and develop strategies that are within their control. There are seven factors that any company who wants to grow should consider. They are:

- Finding out if your products and services have a competitive advantage.
- Learning methods to find new customers and markets. Instead of leaving it up to the sales force to find new customers, it is much more efficient to provide them a plan of what kinds of customer profiles you are seeking and markets you are targeting.
- Learning how to use internal information and inquiries to help you sell.
- Considering a different kind of organization to allow you to prospect for new market opportunities. The pyramid or functional organization used for so long to efficiently manufacture products doesn't work very well for finding new customers and markets. I would like to suggest that American manufacturers need to adopt a new type of organization — the Prospector Organization — to be able to grow in the future
- Gathering enough information to make sure your new products will sell and there are enough customers to justify the investment costs.
- Using future technologies and other methods to modify your products or invent new products
- Analyzing the way customers want to buy and considering different types of sales channels for different customers and markets
- My book *Saving American Manufacturing* addresses the growth issue and explains how to do all of these strategies in detail

Changes to the American economy marches relentlessly on. I think it is realistic to say that there are going to be many winners and losers as we try to adjust to the global economy. I am a realist and I understand industrial manufacturers. I know that many companies will "freeze in the headlights" of global change or will hunker down and continue to use the same strategies with the hope that we will somehow return to the good old days.

But I also am encouraged that in my travels I have found a variety of American manufacturers that are changing their strategies and taking advantage of the new market opportunities being created (I call them the New Stars).

In a few words, it is all about changing the company from an order taker to an order maker.

## About The Author

Mike Collins is on a self-proclaimed mission to save U.S. manufacturers — especially those in the industrial and technology sector, his specialty. He wants to change the tone and tenor of the conversation manufacturers are having about their future and the future of American Manufacturing in the United States. Why? Because he strongly believes that Saving American Manufacturing is the key to preventing the decline of living standards for the middle class and to prevent other sectors of the economy from deteriorating. This strong belief in manufacturing, along with the powerful success stories he tells and the proven strategies he describes, delivers a combination of inspiration and practical information.

In his new book, *Saving American Manufacturing*, he makes the case that too many manufacturers, are “Defender” organizations, who are trying to compete and grow by totally depending on the internally focused strategies of cost-cutting and process improvement. Although these strategies have kept American manufacturing in the game and have increased productivity, many American manufacturers are in declining industries that are losing to foreign competitors— and they are no longer growing or increasing market shares.

Collins asserts that, to succeed in the 21<sup>st</sup> century global economy and get back to growth, manufacturers must change from an internal or operational mindset to an external market driven orientation. Specifically they must become “Prospector” companies focused externally, on finding the new opportunities being created in the new economy

A lot of speakers can tell manufacturers *what* they need to do to win in today's hypercompetitive global economy. But not many can tell them *how* to do it. Mike Collins can . . . because he's done it. In his 35 years in manufacturing — including corporate positions from salesman to vice president and extensive consulting — he's helped companies make the transition to becoming “Prospector” companies focused externally, on developing new products, finding new markets and developing practical growth plans.

Mike Collins is a manufacturer who is also a speaker and author. The book is based on Collins' own success turning around two different divisions of a mid-size company over the last seven years, as well as on in-depth research of other successful small- and mid-size manufacturing companies.

## Experience

Prior to consulting Mr. Collins was Vice President and General Manager of two divisions of Columbia Machine in Vancouver, Washington. He has more than 35 years of experience in Manufacturing

### **Writer / Speaker**

Mr. Collins is a frequent speaker on manufacturing issues. His vast experience gives him a wealth of knowledge and small business experiences to share with his audiences. He delivers his message with a mix of practical business methods and the "street smarts" that comes from having "done it"

He is also a writer for many industrial trade journals. Since September of 2007 he has written 324 articles and columns on a variety of manufacturing topics.

### **Author**

He is the author of *The Manufacturer's Guide to Business Marketing* published by McGraw Hill.

He also was the author of "Saving American Manufacturing" published by First Flight Books in Chicago.

A companion handbook *Growth Planning Handbook for Small and Midsize Manufacturers* was published by NIST MEP of the Commerce Department

You can find these books on his website [mpcmgt.com](http://mpcmgt.com)

Mr. Collins has and M.B.A. from City University and a B.S. degree from Portland State University in Portland Oregon.

### **Speeches and Workshops**

Keynote addresses

- New Strategies for the New Century
- Manufacturers Biggest Challenge — More Revenue
- Saving American Manufacturing

Workshops and seminars

- Finding new customers and markets
- Developing new products that will sell
- Developing services to change your company
- How to change your industrial sales channels

- Assessing your company for growth
- Developing a turn around plan to survive in the new economy

**Michael P. Collins**

MPC Management

2237 Ne 203<sup>rd</sup>, Fairview OR 97024

PH 503-669-4968

Email [mpcmgt@att.net](mailto:mpcmgt@att.net)